GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1087
ANSWERED ON:04.12.2015
Variation of Bank Interest Rates
Kodikunnil Shri Suresh

Will the Minister of FINANCE be pleased to state:

(a) the present ceiling limits of deposits and interests to be reported to income tax by cooperative banks and nationalized banks:

(b) whether there is any variation of interest rates of cooperative banks and nationalized banks, if so, the details thereof along with the reasons therefor;

(c) whether the Government has taken any steps To rectify this discrepancy of interest rates of the said banks: and

(d) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) The present ceiling limit of deposits to be reported to income tax by cooperative banks and nationalized banks is governed by section 285BA of Income Tax Act read with Rule 114E of Income Tax Rules 1962. As per the section a banking company is required to report cash deposit aggregating to 10 lakh rupees or more in a year in any savings account of a person maintained in that bank.

Further, the department collects information from various persons including interest paid by nationalized banks and cooperative banks under section 133(6) of the Income Tax Act based on parameters which are decided from time to time.

(b), (c) & (d) - As regard interest rates on deposits with effect from October 22, 1997, RBI has given the freedom to commercial banks to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO).
As regard interest rates on savings deposits, with effect from October 25, 2011, banks are free to determine their savings bank deposit interest rate, subject to the following two conditions:

(i) First, each bank will have to offer a "uniform interest rate on savings bank deposits up to Rupees one lakh, irrespective of the amount in the account within this limit. While calculating interest on such deposits, banks are required to apply the uniform rate set by them on end-of-day balance up to Rupees one lakh.

(ii) Second, for any end-of-day savings bank balance exceeding Rupees one lakh, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks wifl not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

As regard interest rates on advances, RBI has deregulated the interest rates on advances sanctioned by Scheduled Commercial Banks, with effect from October 18, 1994 and the interest rates are determined by the banks, themselves with the approval of their respective Boards. In terms of Base Rate guidelines which came into effect from July 01, 2010, banks are required to determine their actual lending rate on loans and advances with reference to the Base Rate and by including such other customer specific charges as considered appropriate. Ail categories of loans, except specified exemptions, are priced only with reference to the Base Rate, which is announced by banks after seeking approval from their respective Boards. Since the Base Rate is the minimum rate for all loans, banks are not permitted to resort to any lending below the Base Rate.